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Achmea Group

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Achmea Group

SACP* Assessments					SACP*		Support		Ratings
Anchor	a-	+	Modifiers	1	= a	+	0	=	Financial Strength Rating
Business Risk	Strong		ERM and Management	1	Liquidity	0	Group Support	0	A/Negative/--
Financial Risk	Strong		Holistic Analysis	0	Sovereign Risk	0	Gov't Support	0	

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Strong

- Strong competitive position, demonstrated by its leadership within the Dutch insurance market.
- Exclusive bancassurance and direct distribution networks.
- Intermediate industry and country risk assessment, driven by significant exposure to Dutch insurance market.

Financial Risk Profile: Strong

- Weakened financial risk profile, following numerous one-off losses and provisions in 2013, 2014, and 2016. Inherent volatility in capital and earnings places material pressure on its fixed-charge coverage ratio, which is below 4x, and on the financial flexibility of the group.

Other Factors

- The group credit profile and our ratings on Achmea's core subsidiaries are one notch above the anchor of 'a-'. This reflects our assessment of enterprise risk management (ERM) as strong, combined with satisfactory management and governance assessment.

Outlook: Stable

The negative outlook reflects our view that we may lower the ratings by one notch over the next 12-24 months years if the group fails to rebuild its financial risk profile.

Downside scenario

The negative outlook reflects our concerns that Achmea may not be able to restore its profitability to a level sufficient to maintain its capital adequacy at least within the 'A' range, and its fixed-charge coverage above 4x (including one-off items, aligned with Achmea's calculation of the reported ratio). The outlook also reflects that if operating performance were to remain weak, and we believe that the group's weak fixed-charge coverage is unlikely to improve, we could consider lowering the ratings by more than one notch.

Upside scenario

We could revise the outlook to stable if we see an improvement in operating performance, allowing the group to rebuild its financial risk profile, return to a sustainable fixed-charge coverage of over 4x according to our calculations (excluding one-off items from 2016 onward), and maintain capital in excess of the 'A' level per our model.

Base-Case Scenario

Macroeconomic Assumptions

We expect The Netherlands to see faster growth--amid more subdued growth prospects generally for eurozone--with GDP growth of 2.2% in 2017 and 1.9% in 2018, up from 2.1% in 2016. We anticipate unemployment rates to improve to 5.0% in 2017 and 4.6% in 2018, and also foresee an increase in 10-year government bond yields to 0.6% in 2017 and 0.9% in 2018 from 0.3% in 2016. An increase in economic activity generally correlates with a boost to the sales of insurance products.

The Dutch life sector is closely linked to the property market. Insurers are significant mortgage issuers and investors, while some life products are linked to house sales. We expect the continuous revival of the Dutch housing market, which started in 2014, to continue over the next two years, with forecast year-on-year price gains of 5% in 2017 and 3% in 2018 on the back of improving economic conditions (2016: 6% growth; 2015: 4.8%; 2014: 2%, after a prolonged price correction of 20% between 2008 and 2013). This may give some relief to falling premium volumes observed over the past four consecutive years in the Dutch life insurance market.

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Company-Specific Assumptions

- We expect an overall decline in gross premium written due to intensive competition in mature insurance market in the Netherlands.
- Our base-case scenario assumes that Achmea's management will take actions over the next two years to ensure that it maintains capital adequacy in the upper 'A' range, as per our capital model in 2017-2018 and improves fixed-charge coverage ratio.
- We expect net income in excess of €250 million in 2017-2018.
- Achmea will continue to have a strong competitive position thanks to its market-leading status and exclusive distribution networks.

Key Metrics

(Mil. €)	2018f	2017f	2016	2015	2014*	2013
Gross premiums written	~18,000	~18,000	19,500	19,922	20,002	20,225
Change in gross premiums written (%)	0.0	<(10)	(2.0)	(0.4)	(1.1)	(1.1)
Net income	>250	>250	(382)	386	16	349
Net combined ratio non-life (%)	100.0	101.0	110.2	105.4	102.1	98.5
Net combined ratio health (%)	100.2	100.2	102	98.7	99.1	97.1
Fixed-charge coverage (S&P Global Ratings' calculation)§	<4.0	<4.0	(2.1)	3.9	4.3	4.1

Note: Ratios are based on S&P Global Ratings' calculations. f--S&P Global Ratings' forecast. *Basis of calculation changed in 2014. Achmea increased holding company expenses allocation to segments from 2014 onward. §From 2016 we no longer include one-off, nonrecurring items in the calculate of the fixed-charge coverage ratio. The 2016 and forecast 2017-2018 ratios are therefore not directly comparable with prior years.

Company Description

Achmea is a large Dutch multiline insurer with gross premiums of €19.5 billion (2015: €20 billion). Through its multiple brands such as Centraal Beheer, Interpolis, and Zilveren Kruis, it serves approximately 12 million customers in The Netherlands and 15 million worldwide. Achmea also operates in Greece, Turkey, Slovakia, and Ireland, and has a partnership with Rabobank in Australia. In both the Dutch and international markets, Achmea writes non-life, life, and health insurance. In addition to insurance, Achmea operates banking and asset management activities, mainly in The Netherlands. Achmea is privately owned, its main shareholders being Achmea Association (65%) and Rabobank (29%), both of which are Dutch unlisted cooperative associations.

Business Risk Profile: Strong

Insurance industry and country risk: Intermediate overall

In 2016, Achmea derived close to 94% of its gross premiums from the Dutch insurance markets, which we assess as carrying intermediate risk in all segments (life, non-life, and health).

We consider that the Dutch non-life sector is fiercely competitive, placing pressure on average market returns. However, we anticipate that returns should marginally improve on a technical basis, given strategic actions within the market to improve profitability.

Shrinking premium volumes in the Dutch life industry, low interest rates, and declining market prospects put pressure on the Dutch life market, in our opinion.

Aggressive competition in the Dutch health sector is also combined with close scrutiny from policymakers and indirect political pressure on the premium rates.

We consider that operating in challenging conditions in all insurance segments (non-life, life, and health) may make it difficult for Achmea to sustainably restore profitability and rebuild its balance sheet strength.

Competitive position: Strong due to a leading market position and high level of diversification

Achmea's strong competitive position stems from its leadership within the Dutch insurance market. Achmea has a leading share in the Dutch market with 31% in health insurance and 21% in Dutch P/C lines. The group also ranks No. 3 in the Dutch income protection segment (19% market share), No. 3 in individual life 15% market share), and No. 5 in asset management. Having leading market shares in health and non-life insurance offers greater competitive strengths than in individual life insurance, in our opinion, due to the pressured Dutch life market. Within The Netherlands, Achmea operates a multi-brand strategy that is split by product--for example, Zilveren Kruis for health; Centraal Beheer and FBTO for direct distribution; and Interpolis for bank distribution. The direct distribution channel and bancassurance tie-up with Rabobank provide Achmea with exclusive and extensive sale networks. We regard this multibrand, multidistribution approach in The Netherlands as sound and supportive of Achmea's profile.

Achmea's largest line of business--its basic health franchise--is subject to a mandatory acceptance of risk, irrespective of the risk profile of the person insured. The critical success factor is negotiating power with health care providers and, consequently, cost management. As the largest health insurance provider, with about 5 million customers, Achmea benefits from economies of scale.

Despite the leading position in the Dutch insurance market, the group does not seem to be able to turn this leadership position into earnings better than peers. On the contrary, the group's earnings have been under pressure in the past three years due to restructuring costs, write-offs, and additional provisions in the health segment. We expect a net income of above €250 million in 2017 and 2018. Should Achmea be unable to turn its leadership position into earnings at least in line with peers, we may reconsider our strong assessment in the longer term.

Table 1

Achmea Group Industry And Country Risk

Insurance sector	IICRA 2016	Business mix 2016 (%)	IICRA 2015	Business mix 2015 (%)	IICRA 2014	Business mix 2014 (%)
Netherlands health	Intermediate	68	Intermediate	68	Low	66
Netherlands P/C	Intermediate	17	Low	16	Low	17
Netherlands life	Intermediate	9	Intermediate	11	Intermediate	12
Other	N/A	6	N/A	5	N/A	5
Weighted average IICRA	Intermediate	100	Intermediate	100	Low	100

IICRA--Insurance industry and country risk assessment. N/A--Not applicable. P/C--Property/casualty.

Table 2

Achmea Group Competitive Position

	2016	2015	2014	2013	2012
Gross premiums written (GPW)	19,500	19,922	20,002	20,225	20,445
Change in GPW (%)	(2.1)	(0.4)	(1.1)	(1.1)	4.1
Net premiums written	19,396	19,627	19,014	19,499	19,595
Change in net premiums written (%)	(1.2)	3.2	(2.5)	(0.5)	4.2
Net premiums earned	19,425	19,526	18,757	19,532	19,610
Change in net premiums earned (%)	(0.5)	4.1	(4.0)	(0.4)	4.3
Reinsurance utilization (%)	0.5	1.5	4.9	3.6	4.2
Property/casualty (P/C): reinsurance utilization - premiums written (%)	0.3	3.0	3.3	3.5	3.3
Life: reinsurance utilization - reserves (%)	2.7	3.0	3.3	2.0	2.4
Business segment (% of GPW)					
Life	9.2	10.8	12.4	12.8	14.4
P/C	16.3	15.7	15.8	15.6	15.4
Health	67.1	67.9	66.3	65.5	64.2
Other	7.3	5.6	5.5	6.0	6.0

P/C-Property/casualty.

Table 3

Achmea Group Health Insurance

(Mil. €)	2016	2015	2014	2013	2012
Gross premiums written	13,092	13,517	13,257	13,253	13,120
Combined ratio (%) (reported)	102.5	99.1	98.4	96.8	98.7
Profit before tax	(196)	287	418	529	293

Note: 2012-2014 data represents Dutch business only; other years are all business.

Table 4

Achmea Group Life Insurance

(Mil. €)	2016	2015	2014	2013	2012
Gross premiums written	1,794	2,160	2,485	2,593	2,944
New business margin (%)	N/A	1.3	0.4	(4.3)	(1.8)
Profit before tax	285	165	59	251	383

Note: 2012-2014 data represents Dutch business only; other years are all business. N/A--Not available.

Table 5

Achmea Group Non-Life Insurance (Netherlands)

(Mil. €)	2016	2015	2014	2013	2012
Gross premiums written	3,184	3,128	3,163	3,164	3,151
Combined ratio (%) (reported)	107.1	104.4	102.5	98.1	99.6
Profit before tax	(189)	34	103	265	200

Note: 2012-2014 data represents Dutch business only; other years are all business.

Financial Risk Profile: Strong

Capital and earnings: Very strong, but pressured

In our base-case scenario, we anticipate that Achmea's management will take actions over the next two years to ensure that it maintains its very strong capital and earnings assessment, with a capital adequacy ratio at least within the 'A' range, as measured by our risk-based capital model. Although we still view Achmea's capital and earnings as very strong, there has been a long-term decline in excess capital at the 'A' level, which in our view will continue if Achmea does not return to strong profitability in 2017. Quality of capital remains favorable, with more than 60% of total adjusted capital, per our model, derived from core shareholders' funds.

Capital erosion occurred due to the overall low level of earnings over the past three years amid restructuring costs and write-offs as well as updated cost assumptions and interest rate developments in the life business. For example, net income dramatically decreased to €16 million in 2014 from €349 million in 2013. In 2015, Achmea's net income was €386 million, however, the group posted a net loss of €382 million as of Dec. 31, 2016, due to deteriorating operating results in both its health and P/C business.

Lower prospective earnings may also hinder future capital generation over the longer term, contributing to the weakening of the group's financial risk profile.

We expect earnings to recover in 2017-2018, with net income expected at least in excess of €250 million annually.

Table 6

Achmea Group Capitalization Statistics

	2016	2015	2014	2013	2012
Common shareholders' equity	8,166	8,619	8,540	8,424	8,847
Change in common shareholders' equity (%)	5.3	0.9	1.4	(4.8)	4.7

Table 7

Achmea Group Earnings Statistics

	2016	2015	2014	2013	2012
Total revenue	21,683	21,976	21,364	22,246	22,541
EBITDA	(271)	540	650	776	651
Net income (attributable to all equity holders)	(382)	386	16	349	469
Return on revenue incl. realized gains (%)	(1)	1	(1)	2	2
Return on shareholders' equity (%)	(4.4)	4.3	0.2	3.9	5.3

Risk position: Moderate

In our view, Achmea's moderate risk position primarily reflects the volatility of earnings that we recently observed, which placed material pressure on the fixed-charge coverage ratio and reduced excess capital in the 'A' range. Investment leverage and investment portfolio diversification are at conservative levels, with manageable levels of high-risk assets, such as equity and speculative-grade bonds and loans. We estimate the average credit quality of bonds to be 'AA', because more than half of the portfolio is invested in sovereign debt rated 'AAA'. The portfolio is also adequately diversified among sectors and obligors. The group has immaterial exposure to the government bonds of

Portugal, Italy, Ireland, Greece, and Spain. As of 2014, Achmea reached an agreement with labor unions, resulting in a collective defined contribution scheme. As a result, the main part of the pension agreement qualifies as a defined contribution scheme, which has significantly reduced the group's exposure to employee benefit obligations.

Table 8

Achmea Group Risk Position					
	2016	**2015**	**2014**	**2013**	**2012**
Total assets under management	63,956	62,487	63,825	68,432	65,839
Net investment income	1,282	1,383	1,432	1,535	1,678
Net investment yield (%)	2.9	3.1	3.1	3.5	4.1
Net investment yield including realized capital gains/(losses) (%)	8.1	6.0	15.1	6.2	10.5
Portfolio composition (% of general account invested assets)					
Cash and short term investments (%)	5.7	6.2	5.3	9.3	7.2
Bonds (%)	63.4	67.2	73.4	74.5	74.6
Equity investments (%)	7.6	6.7	6.9	5.9	6.6
Real estate (%)	1.9	1.9	1.8	1.9	2.9
Mortgages (%)	13.0	8.6	3.5	0.1	0.0
Loans (%)	7.2	8.0	7.1	6.6	7.5
Investments in affiliates (%)	0.3	0.3	0.3	0.3	0.2
Investments in partnerships, joint venture and other alternatives investments (%)					
Other investments (%)	0.9	1.1	1.6	1.4	1.0

Financial flexibility: Less than adequate, constrained by low fixed-charge coverage

Achmea has less-than-adequate financial flexibility, in our view. We have revised down our expectations for Achmea's earnings and as a result the average fixed-charge coverage ratio for 2017-2018 falls below 4x. We view this ratio as a constraining factor for financial flexibility. Historically, borderline fixed-charge coverage ratios in 2014 and 2013 benefited from the inclusion of one-off impairments of goodwill and restructuring costs. In 2015, we also excluded amortization of intangible assets (for example, the value of business acquired), which tipped the ratio to just under 4x. We expect financial leverage to be stable, at around 27%-28%, in 2017-2018.

Table 9

Achmea Group Financial Flexibility					
	2016	**2015**	**2014**	**2013**	**2012**
Fixed-charge coverage (S&P Global Ratings' calculation)*	(2.1)	3.9	4.3	4.1	4.1
Financial leverage including pension deficit as debt (%)	28.2	26.7	27.7	29.5	22.0

*From 2016 we no longer include one-off, nonrecurring items in the calculate of the fixed-charge coverage ratio. The 2016 ratio is therefore not directly comparable with prior years.

Other Assessments

Enterprise risk management: Strong ERM and high importance enhance the rating

We regard Achmea's strong ERM as a positive factor for the ratings.

In our opinion, Achmea's strong ERM framework reflects the group's positive risk culture, positive strategic risk management, positive risk controls, and affirmation of the other sub factors.

We view the importance of ERM to the rating as high, given that the group's operations are significantly exposed to health underwriting and reserve risk, and because the group is heavily reliant on government policy and sensitive to probable policy changes.

In fourth-quarter 2016, Achmea breached its key performance indicator for fixed-charge coverage ratio. The company expects to return to levels within its appetite (>4x) by the second quarter of 2018, and is taking actions (particularly on underwriting) to achieve this. We will closely monitor the actions taken to address this issue.

Management and Governance

We regard management and governance practices as a neutral factor for the ratings. We consider Achmea's management and governance as satisfactory. Achmea's strategic positioning is clear; its financial management is conservative, and its organizational effectiveness is good.

Liquidity

We regard Achmea's liquidity as exceptional, owing to the strength of available liquidity sources, mainly premium income and liquid assets. There are no refinancing concerns and we believe the group would be capable of managing unexpectedly large claims. Achmea maintains committed and noncommitted credit facilities at the group level at several international banks. At year-end 2016, the committed credit facilities of €750 million had not been drawn down, and the facility is valid until 2021.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - General: Update: Intermediate Equity Content For Certain Mandatory Convertible Preferred Stock Hybrids, Nov. 26, 2008
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings Detail (As Of September 8, 2017)	
Achmea Zorgverzekeringen N.V.	
Financial Strength Rating	
Local Currency	A/Negative/--
Counterparty Credit Rating	
Local Currency	A/Negative/--
Related Entities	
Achmea Bank N.V.	
Issuer Credit Rating	A-/Negative/A-1
Certificate Of Deposit	
Local Currency	A-1
Senior Secured	A-
Senior Unsecured	A-
Short-Term Secured Debt	A-1
Subordinated	BBB
Achmea B.V.	
Issuer Credit Rating	
Local Currency	BBB+/Negative/--
Junior Subordinated	BBB-
Senior Unsecured	BBB+
Subordinated	BBB
Achmea Pensioen & Levensverzekeringen N.V.	
Financial Strength Rating	
Local Currency	A/Negative/--
Issuer Credit Rating	
Local Currency	A/Negative/--
Achmea Reinsurance Company NV	
Financial Strength Rating	
Local Currency	A-/Negative/--
Achmea Schadeverzekeringen N.V.	
Financial Strength Rating	
Local Currency	A/Negative/--
Issuer Credit Rating	
Local Currency	A/Negative/--
Holding Company	Achmea B.V.
Domicile	Netherlands

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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